

AAPG ANNUAL MEETING

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**“Are Those Who Guard the Door Keeping You Out or In,
Energy Economics 2002-2003?”**

By David H. Hawk
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JR Simplot Company

WHO GUARDS THE DOOR

(Builders of Barriers To Entry)

Their Motto from the Eagles, "Hotel California"

"You may check out anytime you like, but you can never leave."

INVESTOR OWNED UTILITIES

- ◆ Self Protection
- ◆ Control
- ◆ Bad Decisions

SERVICE COMPANIES

- ◆ Merge & Acquire
- ◆ Less Competitiveness

MAJORS

- ◆ Merge & Acquire
- ◆ Too Large to Drill
- ◆ Less R & D
- ◆ Risk Averse
- ◆ Sum of Parts is Greater Than
the Sum of the Whole

WHO GUARDS THE DOOR

(Builders of Barriers To Entry)



CAPITAL SOURCES

- ◆ Stringent Credit Worthiness
- ◆ You Can Have Money
if You Don't Need It

U.S. & STATE GOVERNMENT

- ◆ Closed the Great Lakes
- ◆ Closed Offshore of
Florida, California, etc.
- ◆ Closed ANWR

NON CONSUMPTIVE HEDGERS

MONEY CHANGERS IN THE TEMPLE

- ◆ Distorted Price Transparency
- ◆ Greed
- ◆ Risk Averse
- ◆ Make Money by Trading Money
- ◆ Enron is the Tip of the Iceberg

WHO GUARDS THE DOOR

(Builders of Barriers To Entry)



DAISY CHAIN

- ◆ MBA's/CFO's-Professional Business Consultants
- ◆ CPA Firms
- ◆ Brokerage Houses
 - Senior Executives
 - Analysts
- ◆ Back to Market Makers
- ◆ Not Invented by Geologists

POOR PUBLIC POLICY

PARTIES DOING "GOOD" FOR US WITH "OUR" MONEY

WHO GUARDS THE DOOR

(Builders of Barriers To Entry)



ENVIRONMENTAL MOVEMENTS

- ◆ Well Funded
- ◆ Selling Message
- ◆ End Justifies the Means

PUBLIC PERCEPTION

- ◆ All Explorers & Producers are Majors
- ◆ Large Shut-in Resources Which Drive Prices Up
- ◆ Everyone is Wealthy
- ◆ Dirty Operations

Our ship has come in but the dogs at the door
won't let it be unloaded .

1984 Natural Gas Deregulation





Industrial End User

I'll Take it!



Oh, no you won't!
Tariff Says we can't

Interstate
Pipeline

Ok, you can
take just a little

Yea!

Chicken Snot!

Interstate Pipeline

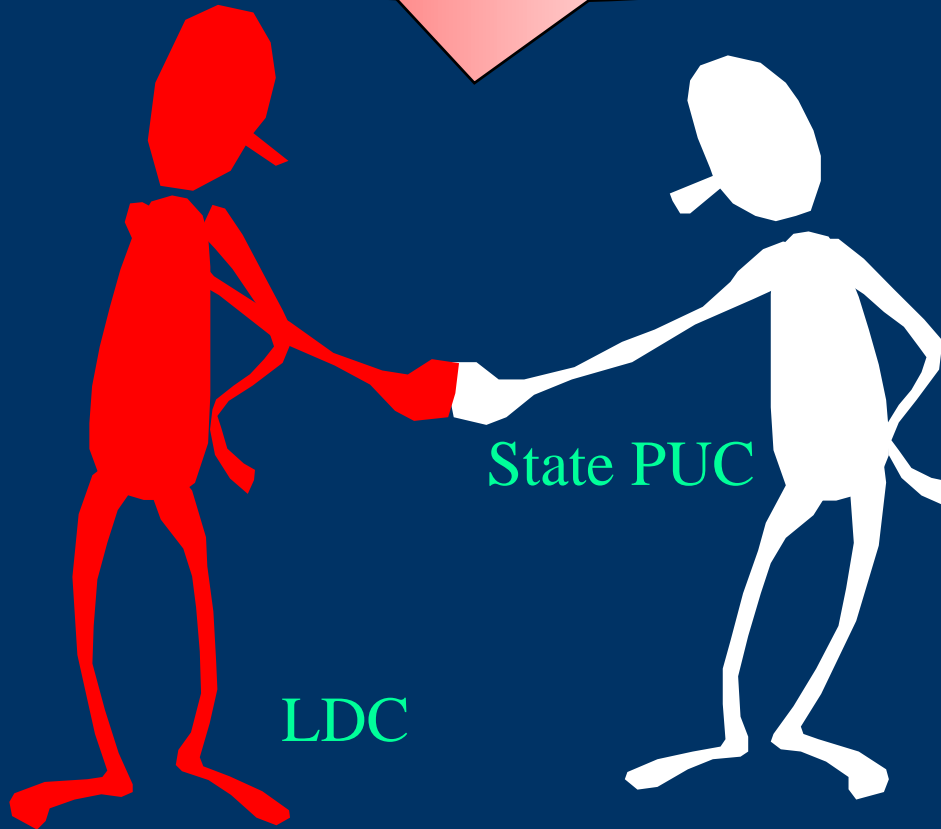
End-User

LDC



Just let 'em try to self transport!

Can you spell
BYPASS?



Natural Gas Deregulation, 2003



IT WORKS!

(SOMEWHAT)

Electric Deregulation 2003



Where are we & why?

DICTATORSHIP OF THE PROLETARIOT



Investor Owned Utilities saying

We aren't sure

Run for cover

Option to stop is Gone

So...Protect shareholders while we
still have a monopoly!

At the Public Utility Commission:

- ◆ Legitimate cost-of-service models
- ◆ Accurate allocation of costs
- ◆ No inter or intra class subsidies
- ◆ Rate of return based on an accurate portrayal of risk and cost of money
- ◆ An open unbundling analysis
 - Cost attributed to Generation, Transmission and Distribution
 - Determination of stranded Assets, and Stranded Liabilities
 - Determination of Power Generation, Reserve Margin



Needed At the Federal Energy Commission:

- ◆ Understanding of Regional Standard Market Design Concept
- ◆ The extension of The Federal Natural Gas Bypass Policy
- ◆ No Market based pricing for services where open access to space and services haven't existed.



At congress passage of any necessary legislation that doesn't injure the financial credibility of the utilities and is fair to all classes of customers.

Reliability of Service will be guaranteed by:

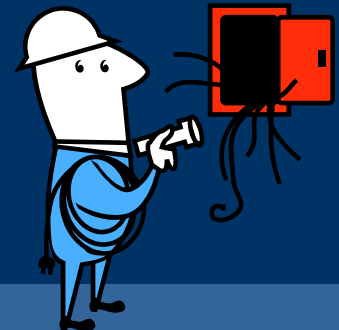
- ◆ Contract Terms and Conditions
- ◆ Customer will walk attitude
- ◆ End-user activism individually and end-user groups and trades associations
- ◆ Regulation
- ◆ Lawsuits-Bypass-Penalties-Stock Price

Currently electric utilities are piecemealing those areas of financial concern before the commissions without having them fully debated in an open full-blown rate case.



Electric Deregulation Should:

- ◆ Increase utility efficiency
- ◆ Increase utility fiscal responsibility
- ◆ Reduce cross-subsidization
- ◆ Eliminate costs associated with research and development projects without system wide beneficial applications
- ◆ Insure new generation projects will meet a market test versus just a lost opportunity test
- ◆ We will know who our account representative is
- ◆ Create flexibility



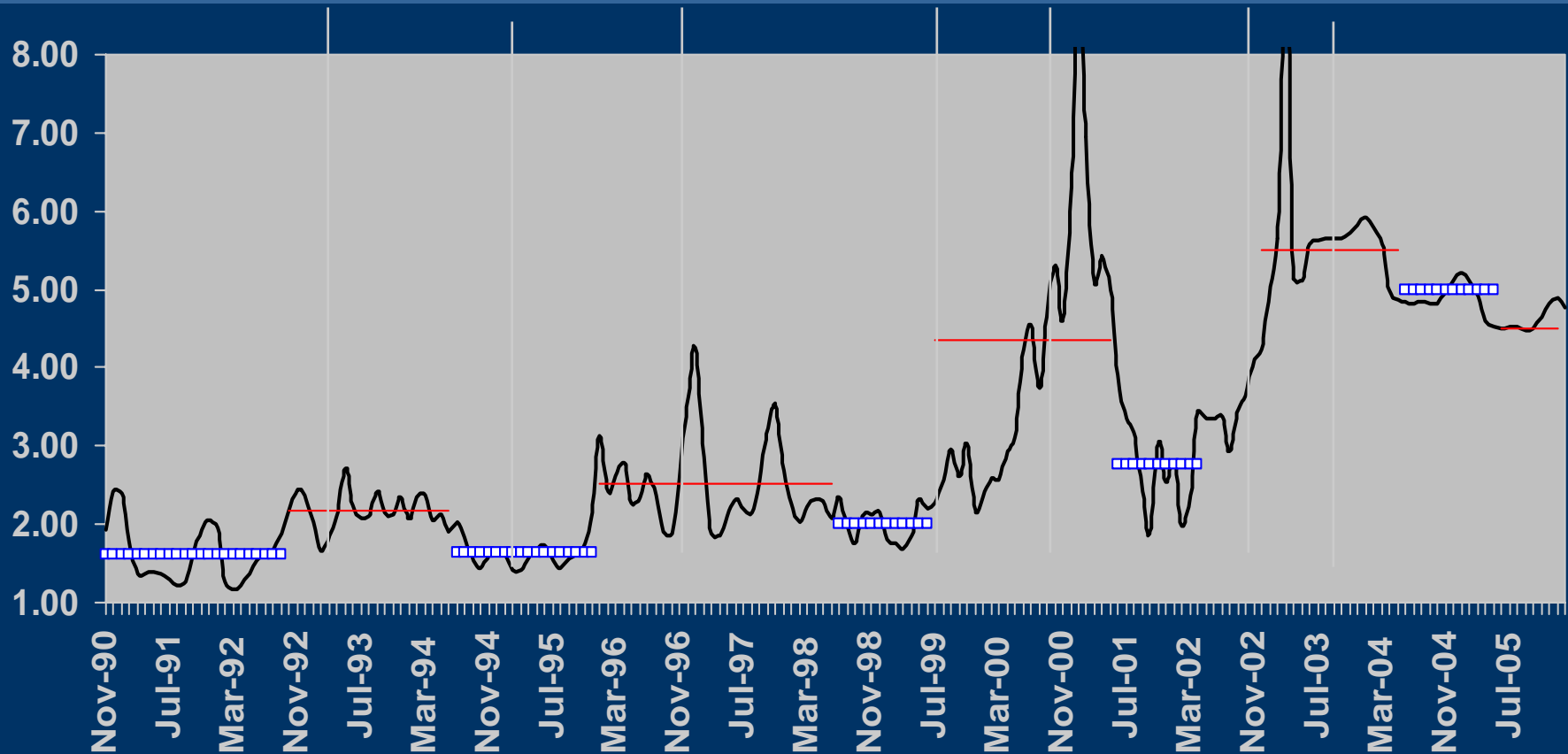
Natural Gas Market Cycles



\$US/MMBtu

Henry Hub Prices

* as of May 6, 2003



Like other capital intensive industries, the gas market will go through cycles.



Rockies Supply vs Pipeline Capacity

Gas Supply:

	(Bcf/ D) estimated		
	<u>2003</u>	<u>2004</u>	<u>2005</u>
Green River	1.75	1.85	1.85
Piceance	0.25	0.25	0.25
Powder River	1.30	1.60	2.00
Uintah	0.70	0.80	0.85
Wind River	0.60	0.75	0.75
Total	4.60	5.25	5.70

Transportation:

	<u>MMBtu/ Day</u>
Northwest Pipeline - North Flow	475
Northwest Pipeline - South Flow	300
Kern River (w/ expansion May'03)	1,751
TransColorado	450
CIG	360
Questar Pipeline	275
Total	3,611

Where is the Market Headed?



Short Term Outlook ???



War

Economy

Hydro Outlook

Storage Balance

Rockies Gas Supply

Oil Prices

Supply Decline

Demand

Weather

Electric Generation



New Sources of North American Supply



Eastern Market Conclusions



- ◆ East Coast has been identified as one of four major North American supply growth areas.
- ◆ Recent wildcat wells have generated disappointing results; industry is still optimistic about prospects, but timing may be longer than anticipated.
- ◆ Incremental Eastern Canadian and Northeast US demand will be satisfied by increasing WCSB, East Coast and LNG supplies.
- ◆ Expansion plans at the four existing LNG terminals will boost maximum sendout capacity by approximately 1.5 Bcfd by 2005.

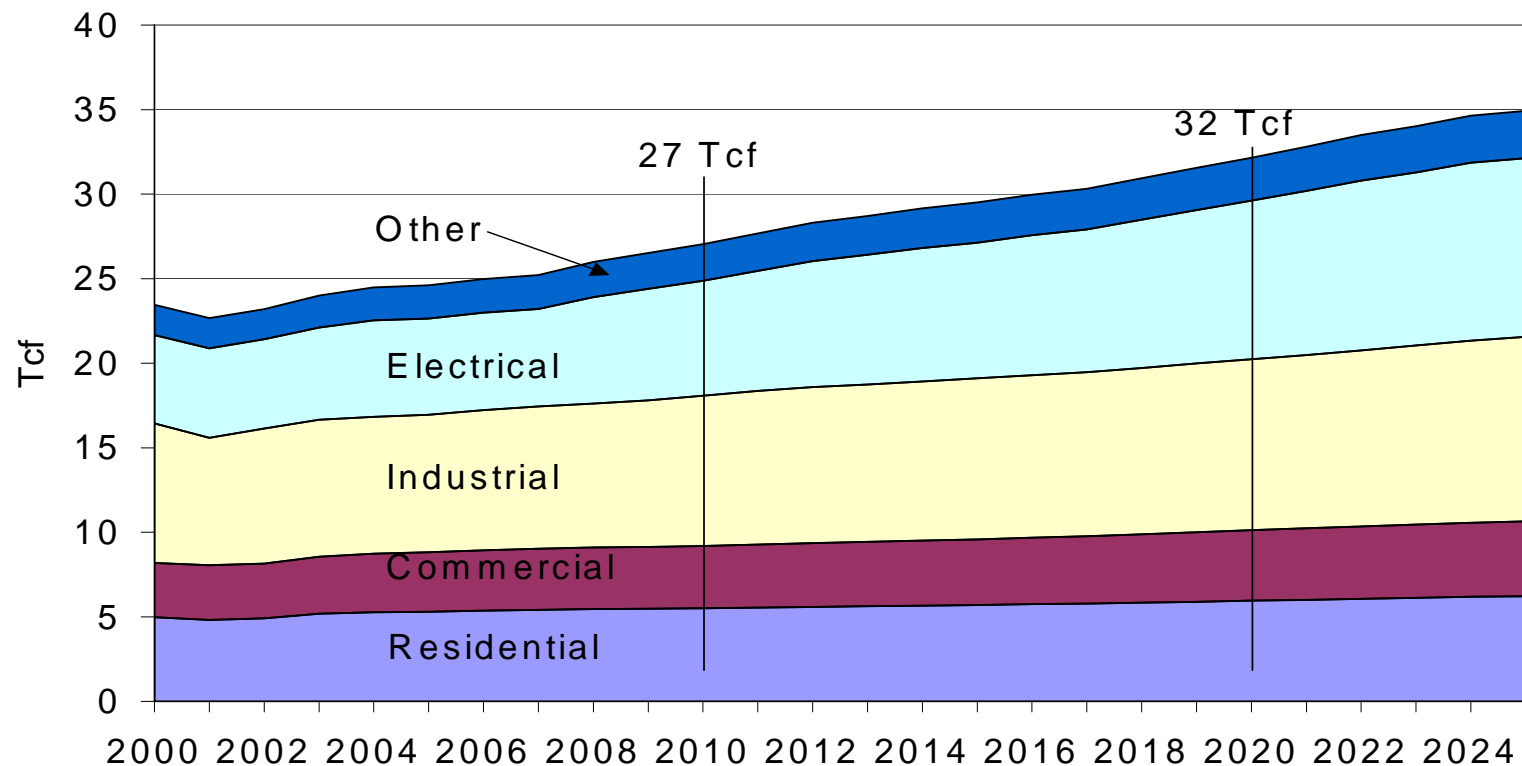
Demand Summary

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- GDP growth has stalled, forecast at 2-3%
 - Business spending is non-existent
 - Consumption highly dependant on interest rates
 - 2003 U.S. federal stimulus offset by state tightening
 - Gas fired generation demand will increase
 - The recovery in the manufacturing sector still uncertain
 - High coal and nuclear utilization
 - Spark spreads favour coal
 - Resid market has likely switched
 - Distillate and LPG's are at the margin

Long Term Demand Outlook

- ◆ Although long-term demand forecasts have come down in recent years, we still expect long-term gas demand to be robust
- ◆ Electrical generation expected to be key growth driver

Long Term Demand Outlook




Long Term Gas Outlook




- ◆ Long term demand outlook
 - Electrical
 - Oil Sands
- ◆ Conventional supply outlook
- ◆ Long term supply demand balance
- ◆ Assessing long term supply options
 - Coal Bed Methane (CBM)
 - Liquefied Natural Gas (LNG)
 - NWT Gas
 - East Coast Gas
 - Alaska Gas


Vagueries of the Market

- 
- ◆ Cost Inflated Earnings & Now want Taxes back
 - ◆ Exxon \$7.04 billion 1st quarter profit & \$12 billion cash reserve


Pat Mulva, Exxon V.P. of Investor Relations

- 
- ◆ "We have a strong financial position that allows us to pursue all profitable opportunities without sacrificing any investment opportunities."

Tyler Dann, Banc of America Securities Oil Analyst

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- ◆ "Cash reserve puts Exxon in the Cat Bird's Seat."
 - ◆ He believes, with the company in a good position to make a major acquisition of another oil company, most likely overseas, or to invest in helping to update Iraq's big oil industry, Exxon could also pay its shareholders a large one-time dividend or make a major stock repurchase.

DESTINED FOR:

- 
- ◆ Dramatic Swings
 - ◆ Boom & Bust Cycles
 - ◆ Fewer Explorers
 - ◆ Fewer Students
 - ◆ Unfunded Mandates
 - ◆ Land Offlimits
 - ◆ Higher Prices
 - ◆ Catch 22
 - ◆ Colonization of America
 - ◆ Greater Use of Risk Management Tools
 - ◆ Pay in Advance

OUR PROFESSION ADDS VALUE:



- ◆ Value to Ideas
- ◆ The Ground
- ◆ The Economy

We Don't Make Money by Trading Money.

We create wealth, which others trade without adding any value.

Our Legacy; We are INDUSTRIAL BUILDERS.

REMEDY



STAND UP

- ◆ Individually
- ◆ Collectively
- ◆ Be Heard
- ◆ Demand to be Heard

CRISIS MODE